Actuarial Society of South Africa

EXAMINATION

May 2020

Subject N211 — Communications

EXAMINERS' REPORT

This subject report has been written with the aim of helping candidates. This report summarises the main points that the examiners were looking for and some common problems encountered.

The examination required the candidates to draft

1. A friendly email from a CEO to his colleagues to encourage them review their investment choices.
2. Presentation slides that explain coming revisions to medical scheme legislation to a company's sales staff.

General Examiner's comments

Question 1

This question primarily tested student's ability to encourage fellow retirement fund members to review their investment portfolios. Within this context, students had to communicate the basic risk-return trade-off and the impact of fees on an investment's accumulation over time.

The chosen document format was a memo, but a "friendly" one sent by a concerned CEO to his employees. For this reason, students could have chosen to start with an appropriate salutation and end with a final greeting. This was not a requirement, and students who retained the standard memo format were not penalised. Some students found it challenging to balance a friendly tone with serious content, especially as the audience comprised of personnel with different educational levels.

Many students did not start their memos by first explaining the overall concept of investment risks and returns and then progressing on to the idea of net returns. Instead, they wrote about these subjects in the same order as they occurred in the question. Ordering information is an important component of communication.

Students were required to target their response to TUF members. These members could only choose from a limited number of portfolios. A larger number of portfolios' return histories were included in the question. Returns for both the provident and pension funds were also shown separately and differed only in the 10^{th} year. Ideally, students should have used one set of results for the funds in which TUF members could invest. Some chose to do this by indicating that an annexure with relevant numbers was attached and others produced a table of relevant portfolios. Both approaches were acceptable, but the former required students to comment more widely on actual numbers in their memos to substantiate their arguments.

The portfolio return numbers favoured TrustUs managed funds, with these funds obtaining the highest returns over most terms at relatively low fees (when compared to competing portfolios). That said, comments about future returns should have been couched in expectant terms, not implying the past results would recur in future.

Students were requested to nudge members towards TrustUs managed portfoilios, but an outright recommendation of these portfolios was not appropriate as members' needs differ and change with their circumstances. Better candidates were able to build an argument with the information given that would persuade members to review their portfolios and turn to the workplace retirement advisor if they wanted expert counsel.

It is important to ensure that all communications are made by the correct author with the correct designation. In this case, the author was the CEO, Alfred Nzo. A number of students wrote in the wrong capacity and a number have done so in past exams. This is poor communication and sometimes leads to inappropriate content.

Question 2

This question tested a candidate's ability to construct an explanatory presentation to a medical scheme's sales staff. Students should have focussed on the rating changes required by the new Medical Scheme's Act.

Many students would have benefitted from ensuring that they understood the way the change in legislation would change the way premiums will be calculated. This was encouraged by the inclusion of a family case study that included an existing member as well as two possible new entrants. Under the new MSA, new entrant total premiums depend partially on the way the scheme views their personal circumstances.

Under the old MSA, premiums were determined individually based on personal risk rating. Under the new MSA, premiums will be based on a Community Rate. This CR may be adjusted for new entrants to the scheme by the addition of a Late Joiner Penalty. All existing members' premiums will equal the CR, which will need to be based on the average risk profile of existing scheme members. The LJP has a minimum of zero (in which case the new entrant's premium will equal the CR) and a maximum of a percentage of the CR. The maximum size of the upward adjustment is based on the number of years since the new member had last been the member of any medical scheme. The actual size of an individual's adjustment may be determined by the insurer within the previously described bounds. Students who successfully conveyed these facts performed relatively well in the content section of the examination. Many candidates did not explain the way premiums will be calculated at a generic level before proceeding to solidify these ideas using the family case study.

Better candidates reworked the question's wording of the LJP to make it clearer for the audience and included graphics (such as a LJP table) in the presentation. Some students seemed to be more familiar with Powerpoint and made better use of the inbuilt *Design* functionality to convey the information in a more visually appealing way. This enabled them to minimize their use of words where it was possible.

Many candidates could not do the basic calculations necessary to determine the premiums after the introduction of the new rating system (including the CR).

Candidates often encouraged future communication via a personal e-mail address instead of a company email address and some failed to use the author's correct designation of Appointed Actuary.

Overall, students struggled more with the memo than the presentation question.

Question 1 - Draft Memo Solution

MEMORANDUM

To:	Colleagues
From:	Albert Nzo (CEO)
Date:	1 June 2020
Subject:	Revisiting where your retirement fund money is invested

As it's a friendly memo a salutation of Dear colleagues *or something similar is acceptable.*

As most of you know, TrustUs's retirement seminars are happening again next week. When I recently attended a dry run of the presentations, I was surprised to hear that many retirement fund members are still unaware of where they have invested their retirement savings. I don't want you to be one of them.

Your retirement nest egg

For most of us, our retirement fund savings will be the biggest asset that we have ever accumulated; worth more than either our house or car. Yet we spend much more time on maintaining and improving these than on our retirement savings. This is concerning. Improvements in life expectancy mean that many more retiring members can expect to live into their nineties. Will you have saved enough to see you through your retirement?

Where you choose to invest your retirement savings is an important decision that impacts its increase in value. Over time, each investment portfolio achieves a different growth rate (return) to other portfolios. Investment managers take different levels of risk to achieve their return. It is important to consider both the expected return of an investment and how risky it is when choosing where to invest. You don't want to have expectations of great returns, only to have them dashed if actual returns are a lot lower. Generally speaking, the higher an investment's long-term expected return, the higher the associated risk. You need to choose how to balance risk and expected investment return according to your needs.

Impact of fees on your nest egg

You also need to pay attention to the total fees that are charged by the investment manager. Ideally, you would like to get your desired return (after fees) at the lowest possible risk. Fees decrease the actual return earned on your investment and can really impact the amount of money you save for retirement.

Your investment options

TrustUs staff members are fortunate to have access to a number of well performing, low fee portfolios in the TrustUs Umbrella Fund (TUF). I have invested my savings in the TrustUs Aggressive and TrusUs Moderate Funds. There are many reasons why, but the first two things that come to mind are fees and returns!

The following table illustrates the annualised return (after fees) for the portfolios I am invested compared to their peers, as well as their related fees.

Investment Portfolio	**Total Fees**	**Annualised return (after fees)**			
		1 year	3 year	5 year	10 year
TrustUs Aggressive Portfolio	0,48%	14,8%	7,4%	6,9%	10,7%*
TRustUs Moderate Portfolio	0,50%	10,7%	6,2%	6,2%	10,8%*
Competitor 1 Global Balanced	0,41%	6,9%	4,3%	5,9%	9,4%*
Competitor 2 Conservative *	0,84%	3,9%	4,6%	5,7%	7,8%
Competitor 2 Moderate	0,80%	10,6%	10,6%	7,6%	9,4%*

*An average return given differences in performance between provident and pension funds over the 10-year term

It is pleasing to see TrustUs-managed investment portfolios delivering consistent performance over all terms, often outperforming their peers. We can proudly say that the TrustUs-managed portfolios have significantly lower fees than most of their peers and that TrustUs Moderate is the top performer over 10 years.

How to review your investment choice
You can review your investment choice in the following ways:

1. Download the TUF Retirement App: link
2. Speak to our workplace advisor, Ilse Peterson: ilse.patterson@trustus.co.za
   083 654 8978

It is important to review your investment choice to make sure that it still matches your circumstances. Please consult our workplace advisor, Ilse, when doing this. She can help you weigh up your retirement options. Please don't wait until you are 60 to find out if you have enough money to retire.

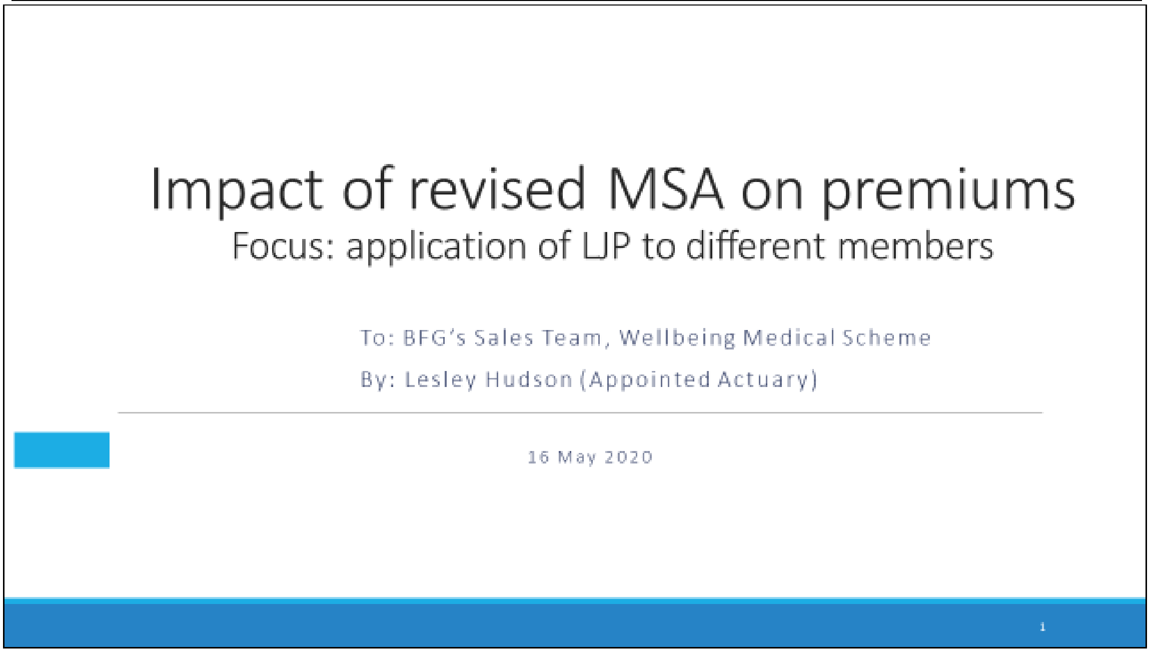
Regards

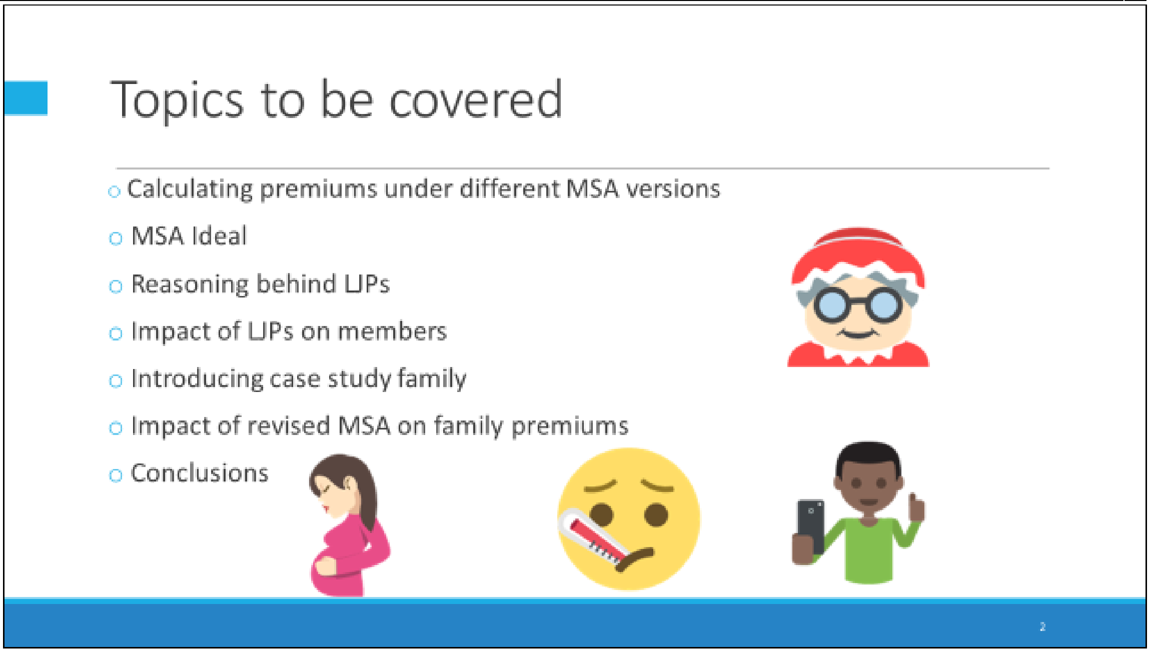
Albert Nzo
CEO

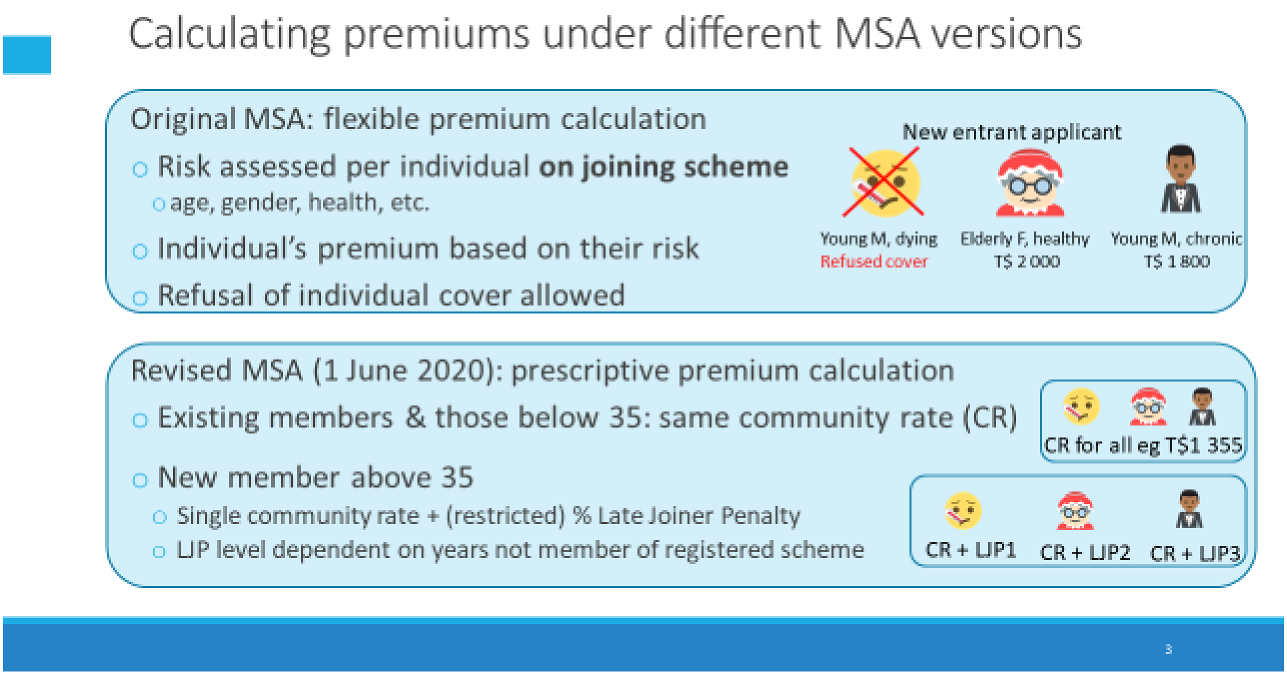
Around 610 words

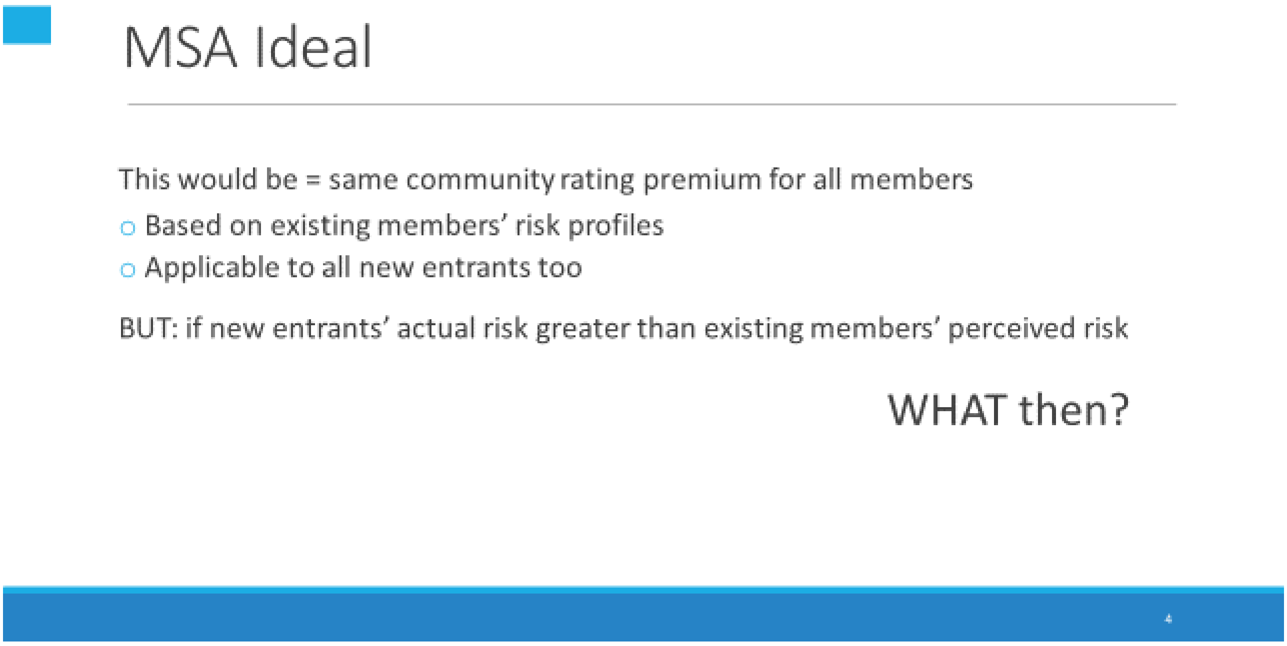
Note *:
In the above table, students could have used a different Competitor 2 portfolio (or excluded the fifth portfolio entirely) as the name of the portfolio in the question body was different to that in the question table.

<u>Question 2 - Draft Powerpoint Solution</u>






Calculating premiums under different MSA versions
Original MSA: flexible premium calculation
Risk assessed per individual on joining scheme
age, gender, health, etc.
Individual's premium based on their risk
Refusal of individual cover allowed
New entrant applicant
Young M, dying
Refused cover
Elderly F, healthy
T$ 2 000
Young M, chronic
T$ 1 800
Revised MSA (1 June 2020): prescriptive premium calculation
Existing members & those below 35: same community rate (CR)
CR for all eg T$1 355
New member above 35
Single community rate + (restricted) % Late Joiner Penalty
LJP level dependent on years not member of registered scheme
CR + LJP1
CR + LJP2
CR + LJP3


MSA Ideal
This would be = same community rating premium for all members
Based on existing members' risk profiles
Applicable to all new entrants too
BUT: if new entrants' actual risk greater than existing members' perceived risk
WHAT then?

Reasoning behind LJPs

If new entrants wait until sick to join …

- Premium likely too low for overall membership
- Possible decreased profit or loss
  - Problematic for Wellbeing Medical Scheme - financially unsound?
  - Increased member premiums or possible scheme closure
- Unfair to pre-existing members

Solution: apply appropriate LJP to new entrants

- Consider individual circumstances (proxy for additional risk)

Impact: encourage healthy join early & avoid potential cross-subsidy

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Impact of LJPs on members

Current members and new entrants 34 or younger

- All move to same community rating premium
- Members may experience premium increases or decreases

New entrants 35 and older

- Same community rating premium + LJP
- Level of LJP decided by Wellbeing Medical Scheme (restricted by MSA)

Immediately preceding years not member of registered medical scheme	LJP range (% of CR)
1 to 4	0 to 5%
5 to 14	0 to 25%
15 to 24	0 to 50%
25+	0 to 75%

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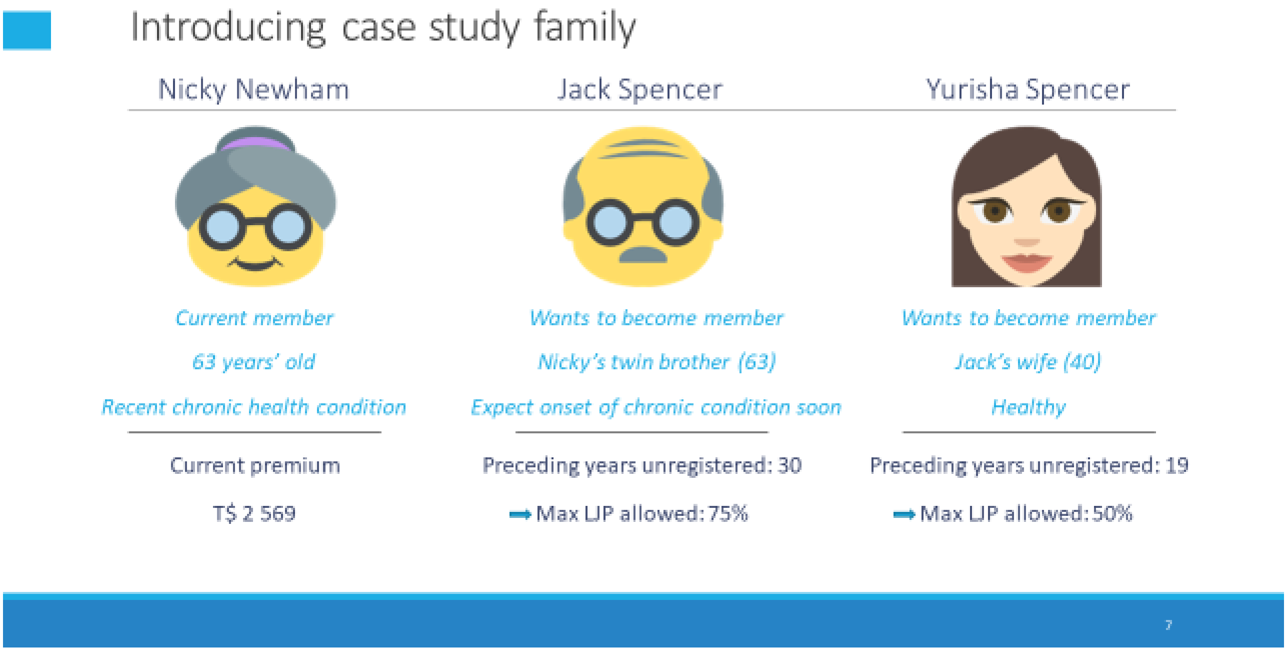
Introducing case study family
Nicky Newham
Jack Spencer
Yurisha Spencer
Current member
63 years' old
Recent chronic health condition
Current premium
T$ 2 569
Wants to become member
Nicky's twin brother (63)
Expect onset of chronic condition soon
Preceding years unregistered: 30
Max LJP allowed: 75%
Wants to become member
Jack's wife (40)
Healthy
Preceding years unregistered: 19
Max LJP allowed: 50%
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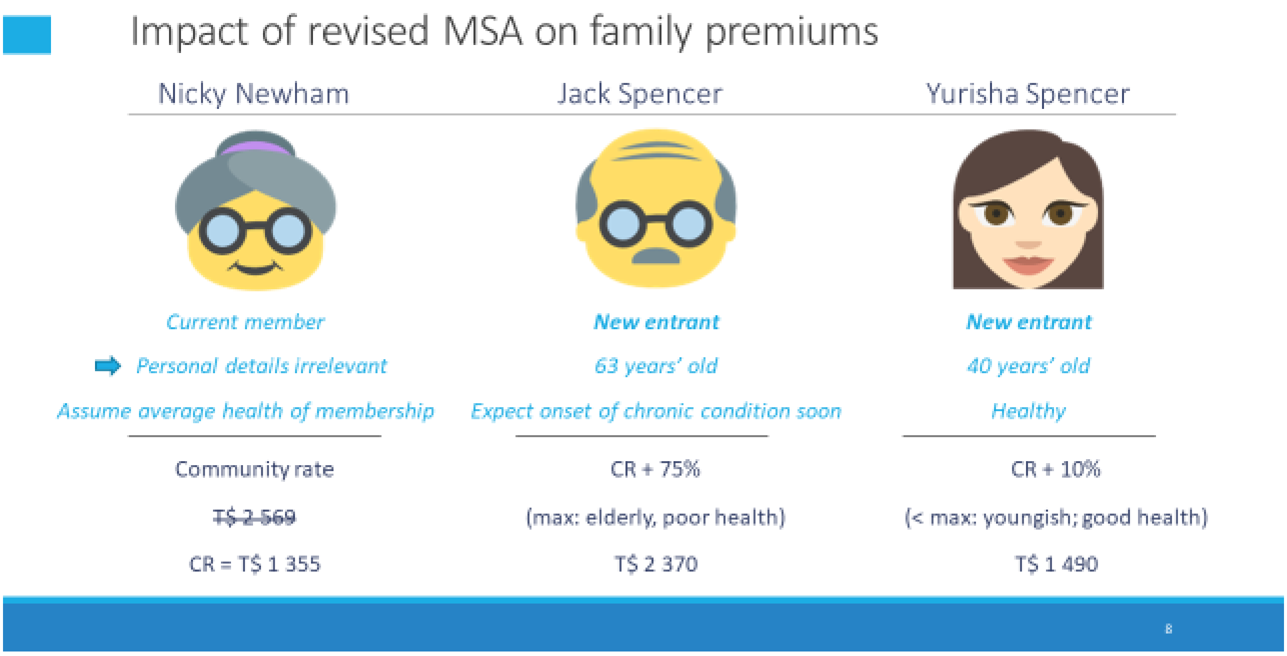
Impact of revised MSA on family premiums
Nicky Newham
Jack Spencer
Yurisha Spencer
Current member
Personal details irrelevant
Assume average health of membership
Community rate
~~T$ 2 569~~
CR = T$ 1 355
New entrant
63 years' old
Expect onset of chronic condition soon
CR + 75%
(max: elderly, poor health)
T$ 2 370
New entrant
40 years' old
Healthy
CR + 10%
(< max: youngish; good health)
T$ 1 490
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Conclusions

MSA ideal: same community rating premium for all members

BUT if new entrant actual risk > perceived risk for existing members

➡ possible result: financially unsound/closed scheme

SO

Revised MSA allows for community rating adjustment (LJP)

- Only for new entrants > 35 years old + preceding years not member of a medical scheme
- Proxy for additional perceived risk
- Level as % community rating ⬆ with length of non-membership

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- Any questions?
- Contact details:
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  - x6745
- Thank you

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END OF EXAMINERS’ REPORT